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### COPYRIGHTS

The authors review the arguments likely to arise when the Supreme Court takes up a case testing the scope of the Copyright Act's first sale doctrine.

## Supreme Court to Address Resale of Imported Copyrighted Works



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**T**he Supreme Court has granted certiorari in a case involving a century-old principle of U.S. copyright law—the “first sale” doctrine—in the very contemporary context of online book resales. At issue in *Kirtsaeng v. John Wiley & Sons Inc.*, No. 11-697 (83 PTCJ 901, 4/20/12), is whether the United States Copyright Act allows copyrighted products produced abroad for sale in a foreign market to be purchased overseas and resold in the United States. Although this case is about textbooks, it may decide whether any copyrighted work produced outside the United States can be resold or

otherwise disposed of in the United States without the copyright owner's authorization.

*Kirtsaeng* implicates the continued legal viability of the so-called “gray market” for copyrighted works, also known as parallel importation. Under that practice, genuine foreign-made and typically less expensive editions of copyrighted works are purchased overseas by third parties, who then import them into the United States for resale in the domestic market.

The economic impact of such sales on the U.S. market for the product is potentially enormous. According to one study, the value of the “gray” goods available in the United States in secondary markets exceeds \$50 billion annually.<sup>1</sup>

The plaintiff in *Kirtsaeng* is John Wiley & Sons Inc., a U.S.-based publisher of college textbooks. Wiley Asia, a wholly-owned subsidiary of Wiley, produced editions of Wiley textbooks expressly marked for sale only in certain international markets. While the foreign editions were manufactured using different, less expensive

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<sup>1</sup> KPMG LLP, “Effective Channel Management is Critical in Combating the Gray Market and Increasing Technology Companies' Bottom Line” 30 (2008), [http://www.agmaglobal.org/press\\_events/press\\_docs/KPMG%20AGMAGrayMarketStudyWebFinal071008.pdf](http://www.agmaglobal.org/press_events/press_docs/KPMG%20AGMAGrayMarketStudyWebFinal071008.pdf).

materials than their U.S. counterparts, their content was similar to that of the domestic versions.<sup>2</sup>

The defendant, Supap Kirtsaeng, was a graduate student who emigrated to the United States from Thailand. To help finance the cost of his education, Kirtsaeng's family and friends shipped him copies of Wiley Asia textbooks that they had purchased overseas. The enterprising Kirtsaeng then resold the books on eBay to U.S. purchasers at higher prices, realizing a total of \$37,000 in gross revenue.

## Lower Court Proceedings

Wiley sued Kirtsaeng for copyright infringement in the U.S. District Court for the Southern District of New York, arguing that Kirtsaeng violated its copyright by importing books intended only for a foreign market. Thus Wiley's complaint alleged that Kirtsaeng's importation of the books violated its exclusive importation right under the Copyright Act, 17 U.S.C. § 602(a)(1).

Kirtsaeng attempted to raise the first sale doctrine as a defense to Wiley's claims. First adopted by the Supreme Court in 1908,<sup>3</sup> and now codified in the Copyright Act at 17 U.S.C. § 109(a), the first sale doctrine permits "the owner of a particular copy . . . lawfully made under this title" to resell it without the permission of the copyright owner.<sup>4</sup>

The district court prohibited Kirtsaeng from asserting the defense, holding that it does not apply to works manufactured outside the United States.<sup>5</sup> The jury found Kirtsaeng liable for willful copyright infringement and awarded Wiley a total of \$600,000 in statutory damages (\$75,000 per work infringed).

Kirtsaeng appealed the decision. By a 2-1 vote, the U.S. Court of Appeals for the Second Circuit affirmed the district court's ruling on the first sale defense, though it acknowledged that the question was "perhaps a close call."<sup>6</sup>

The question turned on the construction of Section 109(a), which applies the protections of the first sale doctrine to copies "lawfully made under this title."<sup>7</sup> Wiley argued that this phrase should be read to mean "lawfully made in the United States" in light of the general presumption that extraterritorial effect should not be implied into U.S. statutes. In other words, a work can be made "under this title" only if it were made in a jurisdiction in which U.S. copyright law governs.

The Second Circuit rejected this construction, noting (among other reasons) that Congress easily could have drafted the statute to refer to domestically-made works had that been its intended meaning. Instead, the court found the statutory text to be "utterly ambiguous" on the question.<sup>8</sup>

The court looked for assistance in another section of the Copyright Act, 17 U.S.C. § 602(a)(1), and the Su-

preme Court's interpretation of that provision.<sup>9</sup> Section 602(a)(1) provides that unauthorized importation "of copies . . . of a [copyrighted] work that have been acquired outside the United States" is an infringement.

The Second Circuit stated that Section 602(a)(1) "is obviously intended to allow copyright holders some flexibility to divide or treat differently the international and domestic markets for the particular copyrighted item,"<sup>10</sup> and thus concluded that the first sale doctrine cannot be applied to copies manufactured overseas. In the court's view, extending the doctrine to such foreign-manufactured works would mean that Section 602(a)(1) "would have no force in the vast majority of cases."<sup>11</sup>

Notably, the Second Circuit's comment on the rationale for the Copyright Act's importation right is an implicit endorsement of the practice of market segmentation for copyrighted works that may involve, for example, different region-dependent pricing, warranty, and consumer support models.

As further support for its construction of Section 109(a), the court relied on a 1998 case in which the Supreme Court indicated—though did not specifically hold—that the phrase "lawfully made under this title" in Section 109(a) does not encompass works produced abroad. That case, *Quality King Distributors Inc. v. L'anza Research International Inc.*,<sup>12</sup> involved a "round trip" journey, in which goods were manufactured in the U.S., sold to foreign purchasers overseas, and brought back into the U.S. for sale here without the copyright holder's authorization.<sup>13</sup>

In holding that the first sale doctrine applies in such circumstances, the court observed that Section 602(a) is broader in scope than Section 109(a) because the former "applies to a category of copies that are neither piratical nor 'lawfully made under this title.' That category encompasses copies that were 'lawfully made' not under the United States Copyright Act, but instead, under the law of some other country."<sup>14</sup> As the Second Circuit noted, this language "indicates that, in the Court's view, copies 'lawfully made' under the laws of a foreign country—though perhaps not produced in violation of any United States laws—are not necessarily 'lawfully made' insofar as that phrase is used in § 109(a) of our Copyright Act."<sup>15</sup>

## Reconciling Competing Statutory Provisions

The key issue of statutory construction in *Kirtsaeng* is the relationship between Sections 109(a) and 602(a)(1). Specifically, would extending the first sale protection of Section 109(a) to foreign-made works effectively negate the importation right in Section 602(a)(1)?

In other words, if the first sale doctrine applies to foreign-made works, are there any circumstances in

<sup>2</sup> Wiley's U.S. editions were often supplemented with CD-ROMs and access to supplementary websites and study guides.

<sup>3</sup> *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908).

<sup>4</sup> 17 U.S.C. § 109(a).

<sup>5</sup> *John Wiley & Sons Inc. v. Kirtsaeng*, No. 08 Civ. 7834, 93 USPQ2d 1432, 1441 (S.D.N.Y. 2009) (79 PTCJ 6, 11/6/09).

<sup>6</sup> *John Wiley & Sons Inc. v. Kirtsaeng*, 654 F.3d 210, 221, 99 USPQ2d 1641 (2d Cir. 2011) (82 PTCJ 530, 5/19/11).

<sup>7</sup> 17 U.S.C. § 109(a) (emphasis added).

<sup>8</sup> *Kirtsaeng*, 654 F.3d at 220.

<sup>9</sup> "Confronted with an utterly ambiguous text, we think it best to adopt an interpretation of § 109(a) that best comports with both § 602(a)(1) and the Supreme Court's opinion in *Quality King* [v. *L'anza Research International Inc.*]" *Kirtsaeng*, 654 F.3d at 220.

<sup>10</sup> *Id.* at 221.

<sup>11</sup> *Id.*

<sup>12</sup> 523 U.S. 135, 45 USPQ2d 1961(1998) (55 PTCJ 386, 3/12/98).

<sup>13</sup> *Id.* at 153 (Ginsburg, J., concurring).

<sup>14</sup> *Id.* at 147.

<sup>15</sup> *Kirtsaeng*, 654 F.3d at 221.

which a copyright owner could still rely on Section 602(a)(1) as the basis for an infringement claim?

In his Supreme Court briefing, Kirtsaeng attempts to answer that question in the affirmative. He argues, for example, that a distributor authorized by a copyright owner to sell books exclusively in a foreign market would violate Section 602(a)(1) if it imported copies into the United States and sold them without the copyright holder's permission. He further argues that Section 602(a)(1) would apply in situations where the importer is not the owner of the copies at issue—as in the case of a shipper who impermissibly diverts copyrighted goods intended for sale in a foreign market into the United States.

Wiley responds that Kirtsaeng's examples fail to give any practical meaning to Section 602(a)(1). Wiley argues that Section 602(a)(1) would *not* prohibit a foreign distributor from importing copies into the United States, since that company presumably would be "the owner of a particular copy . . . lawfully made under this title."<sup>16</sup>

And Wiley dismisses the possibility that Section 602(a)(1) could be applied against a shipper or some other non-owner as an unrealistic hypothetical that "verge[s] on the fanciful."<sup>17</sup>

## Policy Implications

Beyond his arguments based on statutory language, Kirtsaeng emphasizes the harmful policy consequences that he believes would result from adopting Wiley's position. Kirtsaeng argues that limiting the first-sale doctrine to domestically manufactured works would incentivize U.S. companies to move production overseas.

He contends that, by outsourcing production and then importing the works into the United States for sale here, companies could control the domestic secondary resale market for the works during the entire term of the copyright, since the first sale doctrine would not protect consumers who resell their copies of such works. The result, Kirtsaeng argues, would be a loss of U.S. manufacturing jobs—an outcome Congress never could have intended.

Wiley disputes these policy concerns, arguing that courts and commentators have long found the first sale doctrine to be jurisdictionally limited, and yet Kirtsaeng has offered no evidence of any copyright holder relocating its production operations overseas in an effort to restrict downstream sales in the United States.

For its part, the Second Circuit "acknowledge[d] the force" of Kirtsaeng's policy argument, but concluded that it "does not affect or alter our interpretation of the Copyright Act."<sup>18</sup> The court's statement suggests that it believes such policy concerns are properly directed to Congress, not the courts.

## Resolving an Inter-Circuit Conflict

The grant of certiorari in *Kirtsaeng* gives the Supreme Court an opportunity to resolve a split among courts of appeals regarding the territorial scope of the first sale doctrine.

In the Ninth Circuit, the general rule is that the first sale doctrine applies only to copies lawfully made in the

United States. However, unlike the Second Circuit, the Ninth Circuit carves out an exception that permits the first sale defense in cases where the copyright owner has previously authorized a sale of the copies in the United States.<sup>19</sup> The court adopted that exception to resolve the policy anomaly described above, concluding that Congress would not have enacted a scheme that gives foreign-manufactured goods greater copyright protection than domestic goods.<sup>20</sup>

By allowing Section 109(a) to apply after there has been an authorized first sale in the United States, the court's exception removes the incentive for copyright owners to outsource the production of their works, while preserving their statutory right to control the importation of foreign-made copies. This approach, however, is a judicially created remedy that, while logical, finds scant support in the statutory text. Perhaps for that reason, the Second Circuit in *Kirtsaeng* expressly declined to adopt it.<sup>21</sup>

The state of the law on the interplay of Sections 109(a) and 602(a)(1) in the Third Circuit is less settled, but that court has suggested in dictum that it would apply the first sale doctrine to all non-piratical copies manufactured abroad. The court expressed "some uneasiness" with interpreting the phrase "lawfully made" in Section 109(a) to refer to the place of manufacture, noting that "[w]hen Congress considered the place of manufacture to be important" under the Copyright Act, "the statutory language clearly expresses that concern."<sup>22</sup>

Two years ago, the Supreme Court appeared ready to resolve this uncertainty when it granted certiorari in *Omega S.A. v. Costco Wholesale Corp.* (79 PTCJ 784, 4/23/10).

In that case, the Ninth Circuit held that the first sale defense was unavailable in an infringement action involving unauthorized sales of foreign-made Omega watches bearing a copyrighted globe design.<sup>23</sup>

However, Justice Elena Kagan was recused from *Omega* because the United States had filed a brief in opposition to certiorari in the case while she was Solicitor General. The remaining justices divided 4-4, thereby affirming the Ninth Circuit decision without opinion.<sup>24</sup>

Kagan will participate in *Kirtsaeng*, and thus the court's ruling in the October 2012 term should provide the definitive word on whether foreign-made copyrighted works are covered by the first sale doctrine.

The court will consider whether a foreign-made copyrighted work may never be resold in the United States without the copyright owner's permission; whether the work can always be resold in the United States so long as the copyright owner authorized the first sale abroad; or, endorsing the Ninth Circuit analysis, whether

<sup>19</sup> *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 985-86, 990, 88 USPQ2d 1102 (9th Cir. 2008) (76 PTCJ 658, 9/12/08).

<sup>20</sup> *Parfums Givenchy Inc. v. Drug Emporium*, 38 F.3d 477, 482 n.8, 32 USPQ2d 1512 (9th Cir. 1994) (48 PTCJ 693, 10/27/94); see also *Denbicare U.S.A. Inc. v. Toys R Us Inc.*, 84 F.3d 1143, 1149-50, 38 USPQ2d 1865 (9th Cir. 1996) (52 PTCJ 167, 6/6/96).

<sup>21</sup> *Kirtsaeng*, 654 F.3d at 221.

<sup>22</sup> *Sebastian International Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 n.1, 7 USPQ2d 1077 (3d Cir. 1988).

<sup>23</sup> *Omega*, 541 F.3d at 990.

<sup>24</sup> *Costco Wholesale Corp. v. Omega S.A.*, 131 S. Ct. 565, 96 USPQ2d 2025 (2010) (81 PTCJ 205, 12/17/10).

<sup>16</sup> 17 U.S.C. § 109(a).

<sup>17</sup> Brief in Opposition at 25, *Kirtsaeng v. John Wiley & Sons Inc.*, No. 11-697 (U.S. Mar. 5, 2012).

<sup>18</sup> *Kirtsaeng*, 654 F.3d at 222 n.44.

foreign-made works may be resold in the United States without permission but only after the copyright owner has otherwise already authorized a sale in the United States.

For retailers, importers, and other participants in secondary markets, as well for copyright owners who

make and distribute works in the global marketplace, the question is one of critical and far-reaching importance.